Postal Regulatory Commission
Submitted 10/29/2020 1:50:54 PM
Filing ID: 114968
Accepted 10/29/2020

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Market-Dominant Price Change	)))	Docket No. R2021-1

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE
(October 29, 2020)

Pursuant to Order No. 5719, the Association for Postal Commerce ("PostCom") submits these comments on the United States Postal Service's Notice of Market-Dominant Price Change ("Notice"), filed on October 9, 2020 and scheduled to take effect on January 24, 2021. While the prices proposed by the Postal Service appear to comply with the statutory price cap, in that in each class, the Postal Service's pricing proposals produce increases that do not exceed the pricing authority for that class, a number of the Postal Service's proposal nevertheless raise general issues of reasonableness. In particular, because an objective of the Postal Accountability and Enhancement Act ("PAEA") is to improve the stability and predictability of postage rates, several features of the Postal Service's rate proposal require comment. Further, several features of the Postal Service's request undercut the self-serving arguments against the price cap that the Postal Service has used to support its request.

I. <u>First-Class Mail</u>

A. <u>Single-Piece Rate and Statutory Objectives</u>

In R2020-1, the Postal Service increased the Single-Piece rate by 5 cents, which required anomalous modifications to other First-Class Mail rates in order to comply with the price cap. As we noted at the time, "[t]he amount of intra-class variation in rate increases . . . undermines

USPS arguments about predictability. Steep increases on the heels of decreases in the previous year sends confounding price signals to commercial customers.” Comments of the Association for Postal Commerce at 1, Docket No. R2020-1 (Oct. 29, 2019). In describing how FCM rates comply with the objectives and factors of PAEA, the Postal Service argues that rate design is best considered in terms of a business strategy by executing in steps over multiple years. Notice at 9. This argument is difficult to reconcile with what USPS has done with the First-Class Mail single-piece rate; a ten percent increase in 2019 followed by price freezes in R2020-1 and R2021-1. Yes, the Postal Service must consider multiple objectives and factors, but it is difficult to divine a coherent strategic purpose behind such fluctuations. In attempting to justify an above-average increase in First-Class Mail Presort, the Postal Service advances the confounding claim that such an increase is predictable because “[d]ue to the years of below-average price adjustments, mailers should have been anticipating an above-average price increase for Presort Letters and Cards.” Notice at 11. The idea that mailers should read the minds of postal officials is a novel way to claim predictability. In reality, First-Class Mail rates have been anything but. The most glaring example from R2021-1 is in the second ounce letter rate, which will increase by 5 cents.

Furthermore, even under a price cap system, the Postal Service should strive to price individual products within a class according to the costs associated with those products and the market demand for those products. Because these factors are unlikely to change radically from year to year, one would expect price increases for particular products to be similar from year to year. There is certainly no reason to think that a particular product would receive an above average increase in any particular year solely because it received a below average increase in prior years. The underlying economics of the product may simply indicate that the Postal

Service will maximize revenue from some products with below-average increases designed to retain volume or promote efficiency, while other, less elastic products in the class can more often bear above-average price increases without offsetting volume losses.

Additionally, while it is certainly reasonable for the Postal Service to develop and execute a multi-year pricing strategy, neither the statute nor the Commission's regulations allow for evaluation of rates over a multi-year period. Moreover, the independent review of each rate change is logical since the Postal Service is under no obligation to adhere to any future pricing plans. The Commission's determination must turn on the rates before it in this proceeding, not on the Postal Service's promises regarding the rates it might implement in some future proceeding.

Finally, the Postal Service has overlooked an opportunity to simultaneously improve First-Class Mail and reduce costs. As we pointed out in Docket No. MT2020-2, the Postal Service's own request demonstrated that it is less costly to forward mail than to return it to the sender. Given that the Postal Service's network exists to link senders of mail to its intended recipients, the Postal Service would improve service and lower costs by extending the period during which mail is forwarded beyond the existing twelve months. In cases where mailers prefer that pieces be returned, there are numerous service options already available.

II. <u>Periodicals</u>

Generally speaking, the rate increases within Periodicals appear to encourage efficient preparation by applying larger increases to less efficient containers. On the other hand, by stubbornly refusing to increase workshare passthroughs that are far below 100 percent of avoided costs, the Postal Service actively discourages efficiency. In the course of a heavily footnoted five-page attempt to justify abandoning efforts at increasing productive efficiency, *see* Notice at

18-23, the Postal Service neatly summarizes its position as follows: "when the Postal Service is losing money to each customer of a product, there is little point in haggling over whether the Postal Service should have to lose even more to some customers than to others." Notice at 22. This framing, which depicts the Postal Service as a victim, is galling to say the least. Despite years of effort by the Commission, the Postal Service has steadfastly tried to thwart efforts to improve flats performance. Now, the Postal Service wants to treat poor flats productivity as an exogenous event rather than as the result of questionable management decisions over many years. Given what has happened to flats costs over the last ten years, the Postal Service should be maximizing workshare passthroughs to the fullest extent.

III. Marketing Mail

As in previous years, the Postal Service's proposed increase for Marketing Mail masks a considerable amount of variation in price adjustments for various categories. For instance, High Density SCF Entry letter rates increase by 5.4 percent – more than the 3.553 percent increase for Marketing Mail flats – while Saturation letters will receive no increase. As with First-Class Mail, USPS cites rate changes in previous years as having influenced pricing decisions that will take effect in 2021. Notice at 13-14. Variation within class should be driven by elasticity, demand, market factors, and the like—not randomly assigned so that some prices increase, some decrease, and each product gets about the same increase over some indefinite multi-year horizon. While PAEA requires that USPS consider "the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters," the statute does not require explicit multi-year balancing of increases among products as suggested by USPS.

IV. Continued erosion of destination entry discounts will discourage worksharing and introduce inefficiencies

In R2021-1, the Postal Service continues to narrow destination entry discounts for Marketing Mail, something it describes as "progress." Notice at 15. The Postal Service justifies this change – and others like it – as necessary to reduce workshare passthroughs that exceed 100 percent. While the Postal Service may simply be adhering to the Commission's past directives, the result is selective, inefficient, and may distort the market for transportation services in certain lanes. As Postal customers pay rates, and are largely indifferent as to their derivation, the changes will induce customers to behave in ways that may reduce the Postal Service's efficiency.

Heavy mail pieces weighing 1.8 ounces or more are already too heavy to cost-effectively drop ship to many SCF's as the existing workshare discount ($26/m) is not sufficient to offset transportation costs. Moreover, it is no longer cost effective to drop-ship mail pieces weighing 2.3-2.5 oz. to the NDC. As these products have gone over the "tipping point," mail owners are left with two choices: 1) Chose the most cost-effective "all-in-cost" (postage + freight) by entering mail at origin, but receive unpredictable service, which devalues the mail, or 2) pay higher net postage rates to achieve the predictable delivery needed to drive business results. With the latter, mail owners may choose to reduce mail volume in order to remain cost neutral. An example is with large publications – alternative delivery in urban areas is occurring. Mail exiting the system puts additional burden on the balance of mail to cover institutional costs.

Marketing Mail rates (at origin) have increased 33.5% since 2002. After the advent of destination entry discounts, rapid adoption of palletization, co-palletization, comingling, and drop ship by mail service providers who built best class optimization platforms helped get mail to 5 digit presort, entered at the SCF. This platform created an opportunity for mail owners to offset some of the postage increases while enhancing the value of mail due to upstream predictability of mail delivery. If the cost benefit to drop ship goes away, the incentive to comingle and do other mail prep also deteriorates. This will create disruption in the business platform that helped shape the industry over the past 15 plus years.

Contrary to the Postal Service's reasoning (Notice at 19), section 3622(e) does not prohibit workshare passthroughs exceeding 100 percent of avoided costs, as it specifies exceptions for that provision. The Postal Service's increases in processing and transportation costs continue to outpace inflation by a considerable margin, which will continue to force mailers to enter mail further upstream, where service performance is consistently weaker. In addition to a reduction in overall efficiency, erosion of drop shipment incentives punishes customers by forcing them to accept service degradation. There is a persistent pattern in the Postal Service's service performance across its products: the closer to origin that mail is entered, the lower the service scores. Postal customers should not be forced to pay more for less. PAEA specifically allows workshare discounts to exceed avoided costs where "reduction or elimination of the discount would impede the efficient operation of the Postal Service." 39 U.S.C. §3622(e)(2)(D). This provision was included in the statute precisely to prevent the situation described above.

V. Incentives for Seamless Acceptance and Opportunities for Expanded Use of Incentives

The Postal Service is to be commended for offering an incentive for adoption of Seamless Acceptance procedures. Direct incentives for adoption will hasten implementation of cost saving procedures that will improve efficiency and reduce costs. This approach is superior to imposition of new regulations and should serve as a model for future changes.

While PostCom supports the incentive and believes it will be effective, we must note that there has been some confusion regarding how the incentive will be awarded. Although it is certainly within the Postal Service's authority to provide the incentive to the eDoc submitter, there was little or no communication regarding the incentive with the mailing industry prior to the filing of the Postal Service's Request. While we recognize that all pricing decisions are tentative until or unless the Governors have approved them, earlier signaling of the Postal Service's intentions might have lessened confusion and enabled better implementation.

Though ostensibly intended to produce a different outcome, PostCom views the Seamless incentive as analogous to promotions, and PostCom supports the continuation of the Earned Value incentive without mailer specific thresholds. As PostCom has noted in previous dockets, we believe existing promotions could be expanded to encourage greater participation, for instance by extending qualification periods.

We also urge the Postal Service to develop other incentives. In particular, the Postal Service's secure destruction program – which offers considerable savings for the Postal Service by enabling destruction of undeliverable First-Class Mail rather than returning to the sender – should be expanded. If the Postal Service were to offer a modest incentive for adoption to offset mailer conversion costs, adoption of this program could be greatly accelerated.

Respectfully submitted,

/s/ Matthew D. Field

Matthew D. Field
Ian D. Volner
VENABLE LLP
600 Massachusetts Ave., NW
Washington, DC 20001
(202) 344-8281
mfield@venable.com
idvolner@venable.com
Counsel for Association for Postal Commerce